

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF REDKEY

JAY COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
08/19/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Debbie James	01-01-19 to 12-31-20
President of the Town Council	Terri Taylor	01-01-19 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF REDKEY, JAY COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Redkey (Town), for the period from January 1, 2019 to December 31, 2019. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement Audit Report of the Town, which provides our opinions on the Town's financial statement. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

August 6, 2020

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CLERK-TREASURER
TOWN OF REDKEY

CLERK-TREASURER
TOWN OF REDKEY
AUDIT RESULTS AND COMMENTS

MOTOR VEHICLE HIGHWAY STATE DISTRIBUTIONS

Condition and Context

Fifty percent of the monthly distributions from the State Motor Vehicle Highway (MVH) Account were not receipted into the MVH Restricted fund for January 2019 through May 2019. Of the five distributions, \$12,832 should have been receipted into the MVH Restricted fund.

Criteria

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Report B53216, entitled *FINDING 2018-001*.

Condition and Context

There were deficiencies in the internal control system of the Town related to financial transactions and reporting. The internal control procedures in place were not effective for activities related to cash and investments.

The Town completed bank reconciliements each month, but the reconciled bank balance did not agree to the ledger balance or the financial statement balance. There was an unidentified reconciling item in the amount of \$116,898 on the December 31, 2019 bank reconciliation. Posting errors were subsequently identified in the amount of \$111,938, leaving an unidentified cash short in the amount of \$4,960.

The posting errors primarily consisted of transfers between funds that were not properly posted, causing the Sewage Separation fund and the Sewage Utility Operating fund to be overstated in the amounts of \$109,148 and \$2,627, respectively.

CLERK-TREASURER
TOWN OF REDKEY
AUDIT RESULTS AND COMMENTS
(Continued)

Audit adjustments were proposed, accepted by the Town, and made to the financial statement.

The ineffective internal controls and noncompliance were systemic issues, which occurred throughout the audit period.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CLERK-TREASURER
TOWN OF REDKEY
EXIT CONFERENCE

The contents of this report were discussed on August 6, 2020, with Debbie James, Clerk-Treasurer, and Terri Taylor, President of the Town Council.